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IRS News Release

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IRS, States Move Forward in Fight Against Abusive Tax Avoidance

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WASHINGTON — Internal Revenue Service officials announced today that they have started sharing leads on more than 20,000 taxpayers engaged in abusive tax avoidance with tax agencies in 45 states, the District of Columbia and New York City. The IRS also announced today the latest results of another effort to combat abusive tax avoidance, the Offshore Voluntary Compliance Initiative (OVCI).

The sharing of leads was the first large transfer of information under the terms of the new IRS-state partnership unveiled in September. More than 20,000 audit leads and other information have been shared with the states, and more information will be shared in the future.

“Combating the use of abusive tax avoidance schemes by high-income individuals and others is a top enforcement priority,” said IRS Commissioner Mark W. Everson. “Coordinating our casework and sharing leads with the states is an important way to extend the reach of the IRS and help the states.”

Under the terms of the partnership, IRS and the cities and states coordinate efforts to address common compliance concerns in the area of Abusive Tax Avoidance Transactions (ATAT) by working in tandem and avoid repeating each other’s efforts.

“The states and the IRS routinely share information, but the ATAT program presents us with an exceptionally fertile opportunity to help one another,” said Stephen M. Cordi, Deputy Comptroller for Maryland and president of the Federation of Tax Administrators, an association of the tax agencies in all states, D.C. and New York City. “These abusive shelters are hidden through many layers of business transactions and money shifts. Each agency may have a few pieces of that puzzle but by working together we can fit it all together for the benefit of taxpayers.”

The initial leads transferred to states involved scams using offshore transactions, abusive trusts, employee leasing, home-based businesses, employment taxes and other tax-avoidance schemes. The IRS, states and cities will subsequently share information on any resulting tax adjustments from the audits allowing them to piggyback on the results of each other’s work. The process allows the agencies to leverage resources by greatly decreasing the possibility of two or even three tax agencies performing a lengthy examination of the same taxpayer.

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The cities and states that have signed partnership agreements and that received information include: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York City, New York State, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin.

The IRS also announced today the latest results of its Offshore Voluntary Compliance Initiative (OVCI). More than 1,300 taxpayers applied to OVCI and so far the initiative has yielded more than $170 million in taxes, interest and penalties to the U.S. Treasury. In addition, the effort led to obtaining the names of 479 scheme and scam promoters. Nearly half of these promoters were previously unknown to IRS investigators.

Under the terms of this 2003 initiative, taxpayers came forward, amended their returns, paid taxes, interest and penalties and furnished the IRS with information regarding the person who promoted the offshore arrangements to them. Interested persons had from January 14 to April 15, 2003 to step forward. If accepted by OVCI, eligible taxpayers could avoid criminal prosecution and some penalties.

State governments will also benefit from OVCI under existing information-sharing agreements. State tax administrators will be able to make use of the information voluntarily given by taxpayers to the IRS.

“Our coordinated efforts will continue to serve as a catalyst to strengthen overall tax administration at the federal, state and local levels,” said IRS Small Business/Self-Employed Commissioner Dale F. Hart. “This effort maximizes our efforts to stretch our resources as we continue to combat the proliferation of abusive tax transactions and schemes.”

New York and California tax officials praised the ongoing partnership.

“Working with the IRS and other states, New York has stepped-up efforts to identify and prosecute companies and individuals who promote or engage in abusive tax shelter schemes,” said New York State Department of Taxation and Finance Commissioner Andrew S. Eristoff. “The information-sharing process under the partnership will allow us to save resources and accelerate our efforts.”

“With federal and state officials cracking down on illegal tax shelters for multi-millionaires, Californians will be better assured that everyone pays their fair share,” said State Controller and Franchise Tax Board Chair Steve Westly.

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